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SUBJECT: AMBASSADOR TALKS PHILANTHROPY AND ECONOMY WITH  
FINANCE MINISTER COWEN

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11. (SBU) Summary. On January 23, the Ambassador met with Finance Minister Brian Cowen to gauge the Minister's attitude toward tax and other legislative changes aimed at increasing charitable giving in Ireland in advance of the Ambassador's February 21 Philanthropy Symposium. They also briefly discussed key economic challenges facing the Irish government. Cowen seemed personally amenable to providing additional tax and other incentives in support of charitable giving, but noted that there could be challenges to selling these changes politically. He said there are sensitivities to giving the wealthy a tax break and giving donors discretion over the application of donated funds. Some believe funds donated subject to a tax deduction should go into a "social investment fund" administered by the government. Cowen said that the important thrust of his ministry in the year ahead will be improving public- and private-sector productivity. He commented that, while prices have dipped slightly, the housing market looks to be in good shape and the banking sector continues to be well capitalized and liquid. Cowen noted that tax revenues have dipped but that there is a policy consensus for maintaining capital budget spending at high levels, which means reducing the rate of growth of current government expenditures -- a future fight he clearly does not look forward to. End Summary.

#### Building a Philanthropic Culture

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12. (SBU) The Ambassador met with Cowen to touch base with him in advance of the Ambassador's February 21 Philanthropy Symposium and seek his advice on the possibility of tax and regulatory changes designed to boost philanthropic giving. Cowen said that Ireland is only beginning the discussion on philanthropy and welcomed the Ambassador's initiative as a valuable contribution to the debate. However, he continued, some tax and regulatory changes would be difficult to sell to the Irish public, which, he felt, would view any such move as a "handout to the rich" because of the strong cultural belief that the tax code should be "equitable." Cowen argued that what is needed is a concerted campaign to educate politicians and the public about sensible policies that encourage philanthropic giving.

13. (SBU) Cowen's preference would be to amend the tax code but to put the donated money into a social investment fund, which would allocate the money. Under this scheme the donors would have

no say over the ultimate destination of the money. The Ambassador argued that such a structure would bring about less giving than if Ireland were to follow the American model of allowing the donors to determine how their charitable funds are directed. The Ambassador also stressed that change was needed to ensure that wealthy Irish were encouraged to keep their money in Ireland and to reduce the burden on the state coffers of supporting institutions (hospitals, museums, etc.) that are largely funded publicly in Ireland but privately in the U.S. Cowen took these points and promised that his staff would attend the Symposium and maintain contact with the Embassy on the issue.

#### Banks OK but Spending a Problem

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¶4. (SBU) On the economy, Cowen and his deputy, Kevin Cardiff, said that, while prices have dipped slightly, the housing market remains healthy. Cardiff noted that the "underlying demographics support the current level of house prices" and that the government does not expect a steep price drop. Cowen said that Irish banks remain well capitalized and do not seem to be having difficulties.

¶5. (SBU) Cardiff continued that the European Central Bank (ECB) would have difficulty following the Fed's large interest rate cut because of greater upside inflation risk in Europe. Cowen pointed out that, after many years of little wage growth, the recent large German wage increases have stoked inflation. He said that Ireland will no longer have the luxury of

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riding the wave of German wage restraint.

¶6. (SBU) Cowen said that the Irish government's central economic concern now is to find a new post-Celtic Tiger model. Key components will likely be policies aimed at increasing public- and private-sector productivity, keeping a lid on growth in current government expenditures (public-sector wages principally), and maintaining a vigorous capital spending program. On the latter, Cowen said that there was a consensus among policymakers that Ireland needed to upgrade its infrastructure. He said that, for the first time, productivity improvements may need to be factored into any future public-sector pay deals.

#### Comment

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¶7. (SBU) Comment: Cowen appeared personally amenable to exploring ways to amend the tax code to promote charitable giving and seemed open to a frank discussion of the matter at the Symposium. However, his political instincts trumped his personal views, counseling that an education campaign would be needed prior to proposing modifications to the tax code and providing more incentives for charitable giving. That said, we believe we can work with his Ministry to make progress on the issue. Cowen was clearly not looking forward to a tussle with the civil service on future wage deals. However, he knows that with falling tax revenues and a clear need to improve Ireland's infrastructure (transport links, hospitals, schools) this is a fight in which he must engage. End Comment.

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